

Message Text

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC 6926

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FOR COMMERCE

E.O. 11652: N/A

TAGS: BMEP, ETRN, UK

SUBJECT: MAJOR PROJECT - SALE OF ENGINES TO HAWKER-
SIDDELEY FOR HS-146

REF: LEON/ANDREWS TELECON 1/8/74 AND LONDON 10684 OF
9/18/73

1. REVIEW OF SUBJECT SALE WITH CONTACTS HERE INDICATES
POSITION UNCHANGED FROM THAT REPORTED EMBASSY'S REFTEL
PARA 3. SALES EFFORTS OF A/L WERE PRIMARY: REASONS FOR
HS DECISION IN FA*OR DESIGNING HS-146O TO USE A/L
ENGINES*WITH USG INTEREST IN SALE AS EVIDENCED BY EMBASSY OFFIC*ALS CONT*CTS WITH HMG OFFIC**LS PLAYING
A *UPPORT**G ROLE.

2. ACCORDING TO OUR SOURCES HS HAS EVERY INTENTION OF
STAYING WITH DECISION BASED ON ENTIRELY COMMERCIAL
GROUNDS. THERE ARE TWO ROLLS ROYCE (R-R) ALTERNATIVES
WHICH COULD BE USED: (A) R-R/SNECMA M-45 AND (B) SPEY-
67 VARIANT OF WELL-KNOWN SPEY GROUP. ALTERNATIVE (A)
UNLIKELY AS COST FACTORS WOULD RAISE INITIAL ENGINE COST
AND OPERATING COSTS BEYOND WHAT HS CONSIDERS COMMERCIAL
VIABILITY. IN THIS RESPECT IT SHOULD BE NOTED EVEN
A/L ENGINE COST MAKES ENGINE COMPONENT COST OF HS-146
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AIRCRAFT 22 PER CENT VERSUS NORMAL RATIO OF 17-20 PER
CENT OF TOTAL PLANE COST FOR ENGINES. HOWEVER, ALTERNA-

TIVE (B) COULD PROVIDE SERIOUS COMPETITION COSTWISE AS ONLY TWO ENGINES WOULD BE INVOLVED INSTEAD OF 4 A/L ENGINES. THERE ARE NEGATIVE FACTORS TO ALTERNATIVE (B) WHICH A/L HAS USED IN TIPPING SCALES IN FAVOR OF THEIR ENGINE.

3. COST FACTOR COULD STILL BECOME CRITICAL IF HMG WERE SUCCESSFUL IN FORCING HS TO USE R-R SPEY VERSION TO BOLSTER LAGGING R-R SALES DUE TO SLOW-DOWN IN DELIVERY OF RB-211 TO LOCKHEED AS RESULT OF RESCHEDULING OF TRI-STAR DELIVERIES BY U.S. AND OTHER AIRLINES. THIS DEVELOPMENT, WHILE UNLIKELY, IS NOT BEYOND REALM OF POSSIBILITY IN VIEW OF DRASTICALLY CHANGED UK BALANCE OF PAYMENTS SITUATION RESULTING FROM ENERGY SITUATION.

4. WE CONTINUE TO FAVOR EXTENSION OF EXIM FINANCING IN THIS CASE FOR REASONS CITED OUR REFTEL. SINCE WE UNDERSTAND FROM LOCAL SOURCES THAT A/L IS NOT PRESSING FOR DECISION AT THIS TIME, SUGGEST DEFERRING ON SAME UNTIL PARENT COMPANY SEEKS ONE IN CASE COMPETITIVE SITUATION HAS CHANGED OR NEW FACTORS ARE DEVELOPED WHICH MIGHT MAKE EXIM FINANCING ESSENTIAL TO INSURE CONSUMMATION OF THIS SALE.
SOHM

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